

Message Text

CONFIDENTIAL

PAGE 01 MADRID 01459 261143Z

15

ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /026 W

----- 015813

O 261015Z FEB 76

FM AMEMBASSY MADRID

TO SECSTATE WASHDC NIACT IMMEDIATE 4728

C O N F I D E N T I A L MADRID 1459

EXDIS

DEPARTMENT PASS TREASURY SECRETARY SIMON PRIOR TO DEPARTURE

FEB 26 0800

FOR SECRETARY SIMON FROM AMBASSADOR

E.O. 11652: GDS

TAGS: ECON, EAID, EFIN, SP

SUBJ: SPANISH ECONOMIC SITUATION

1. I THOUGHT YOU WOULD FIND IT USEFUL TO HAVE IN BRIEF
FORM OUR ASSESSMENT OF THE CURRENT SPANISH ECONOMIC
SITUATION AS BACKGROUND FOR YOUR MEETING IN MALLORCA
WITH SPANISH FINANCE MINISTER VILLAR MIR.

2. BEGINNING IN 1960 SPAIN ENJOYED MORE THAN A DECADE
OF RAPID ECONOMIC GROWTH (AVERAGE ANNUAL INCREASE IN
REAL GNP OF 7 PERCENT) AS A RESULT OF THE GENERAL ECONOMIC
BOOM IN THE DEVELOPED WEST, LIBERALIZATION AND RATIONAL-
IZATION OF THE SPANISH ECONOMY, INDUSTRIALIZATION, AND
GROWTH IN TOURISM. IT ALSO ACCUMULATED RESERVES OF
OVER \$6 BILLION. THIS FAVORABLE SITUATION BEGAN TO CHANGE
IN MID-1974 AS EFFECTS OF INCREASED OIL PRICES AND
WORLD ECONOMIC SLUMP FELT IN SPAIN. REAL GROWTH IN GNP
FELL TO 5 PERCENT FOR 1974 AND TO NOT MORE THAN 1 PERCENT
FOR 1975. DURING 1975, THE TRADE DEFICIT INCREASED TO
\$8.6 BILLION AND THE BALANCE OF PAYMENTS DEFICIT ON
CURRENT ACCOUNT TO AN OFFICIAL FIGURE OF \$2.8 BILLION.
(WE UNDERSTAND, HOWEVER, THAT GOS WILL SHORTLY RELEASE
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 MADRID 01459 261143Z

REVISED FIGURE SHOWING A \$3.5 BILLION DEFICIT.)

GOS MAINTAINED RESERVES AT HIGH LEVEL (5.9 BILLION) BY INCREASING FOREIGN INDEBTEDNESS (PUBLIC AND PRIVATE) TO A RECENTLY OFFICIALLY ESTIMATED \$8.7 BILLION. (WE NOW UNDERSTAND FROM A GOS SOURCE, HOWEVER, THAT THE DEBT MAY BE CLOSER TO \$7.2 BILLION RATHER THAN \$8.7 BILLION FIGURE VILLAR MIR HAS BEEN USING.) MEANWHILE, AN INFLATION RATE OF 14 PERCENT, UNEMPLOYMENT OF PROBABLY ABOUT 5 PERCENT (HIGH FOR SPAIN) AND PRESSURES FOR HIGH WAGE STEELEMENTS FROM INCREASINGLY ASSERTIVE LABOR FORCE, ARE PARTICULARLY DIFFICULT PROBLEMS DURING TIME OF POLITICAL EVOLUTION TO A MORE DEMOCRATIC SOCIETY.

3. TO HELP COPE WITH BOP PROBLEM, GOS DEVALUED PESETA BY 10 PERCENT ON FEBRUARY 9 AND IS NOW DRAFTING LEGISLATION AND ADMINISTRATIVE MEASURES TO RAISE INHERITANCE, LUXURY

AND OTHER INDIRECT TAXES BY 10 TO 20 PERCENT; TO MODIFY THE LEVEL OF TAXABLE INCOME; TO PROVIDE SPECIAL FINANCING FOR HOUSING, INDUSTRY AND AGRICULTURE; TO PROVIDE INVESTMENT TAX CREDITS; AND TO MAKE SPECIAL ARRANGEMENTS TO STABILIZE PRICES ON A FEW BASIC FOOD COMMODITIES. GOS ALSO HAS IN EFFECT GUIDELINES LIMITING WAGE SETTLEMENTS TO NO MORE THAN 3 PERCENT ABOVE ANNUAL COST OF LIVING INCREASES, BUT THESE ARE LARGELY IGNORED. GOVERNMENT HAS ANNOUNCED INTENTION TO INTRODUCE LATER THIS YEAR LEGISLATION TO REFORM TAX STRUCTURE AND TO TIGHTEN UP ON TAX FRAUD AND EVASION.

4. PRIORITIES OF FINANCE MINISTER ARE TO SPUR LAGGING INVESTMENT WHILE HOLDING LINE ON OR REDUCING INFLATION. HE IS PARTICULARLY CONCERNED WITH SERVICING EXTERNAL DEBT OVER NEXT FEW YEARS. SOME OFFICIALS IN HIS MINISTRY AND AT BANK OF SPAIN, HOWEVER, CLAIM SERVICING OF FOREIGN DEBT (BOTH PUBLIC AND PRIVATE) ABSORBS LESS THAN 10 PERCENT OF CURRENT ACCOUNT FOREIGN EXCHANGE EARNINGS AND IS MANAGEABLE PROBLEM. MINISTRY OF COMMERCE FIGURES SHOW DEBT SERVICING IN 1975 AT \$2.3 BILLION, 16 PERCENT OF REVENUE FROM EXPORTS OF GOODS AND SERVICES. IN ANY CASE, FINANCE MINISTER HAS REQUESTED FINANCIAL ASSISTANCE FROM THE U.S. TO HELP WITH DEBT SERVICING PROBLEM AND HAS

CONFIDENTIAL

PAGE 03 MADRID 01459 261143Z

PUT OUT FEELERS TO AT LEAST ONE PRIVATE U.S. BANK FOR \$1 TO \$1.5 BILLION IN FOREIGN LOANS TO CONSOLIDATE DEBT. WE HAVE AGREED TO RECEIVE A SPANISH TECHNICAL-LEVEL DELEGATION IN WASHINGTON IN EARLY MARCH TO CONSIDER POSSIBLE STRATEGIES SPAIN COULD PURSUE OVER NEXT TWO TO THREE YEARS, INCLUDING PRUDENT USE OF INTERNATIONAL FINANCIAL FACILITIES AND SPAIN'S OWN RESOURCES.

5. MINISTRY OF FINANCE HAS PROMISED, BUT HAS NOT YET PROVIDED, PROJECTIONS OF BALANCE OF PAYMENTS AND BORROWING AND DETAILED COMPOSITION OF FOREIGN DEBT AMORTIZATION AND INTEREST PAYMENTS. WITHOUT THESE, WE ARE UNABLE TO ASSESS HOW PRESSING SPANISH DEBT SERVICING PROBLEM WILL BE OVER NEXT FEW YEARS. REGARDING OVERALL SPANISH ECONOMIC OUTLOOK, OUR ESTIMATE IS THAT GROWTH RATE WILL IMPROVE ONLY marginally, IF AT ALL, THIS YEAR, INFLATION WILL INCREASE SLIGHTLY (PERHAPS BY 2 TO 3 PERCENTAGE POINTS), UNEMPLOYMENT MAY CONTINUE TO RISE SLOWLY, BALANCE OF PAYMENTS DEFICIT MAY FALL TO \$2.5 BILLION, AND LABOR UNREST WILL BECOME MORE INTENSE. DEVALUATION AND ABOUT TO BE ANNOUNCED PACKAGE OF ECONOMIC MEASURES (FULL DETAILS OF WHICH ARE NOT YET KNOWN) WILL PROBABLY HELP SOME, BUT MAY NOT BE SUFFICIENT, AND BASIC RECOVERY IS ALSO DEPENDENT ON REACTIVATION OF U.S. AND EUROPEAN ECONOMIES.

6. I LOOK FORWARD TO SEEING YOU TOMORROW. KIND REGARDS.
STABLER

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, ECONOMIC STABILITY, ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 26 FEB 1976
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: coburnhl
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976MADRID01459
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760072-0571
From: MADRID
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760211/aaaaaint.tel
Line Count: 134
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: EXDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: coburnhl
Review Comment: n/a
Review Content Flags:
Review Date: 10 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <10 MAY 2004 by ellisoob>; APPROVED <02 SEP 2004 by coburnhl>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SPANISH ECONOMIC SITUATION
TAGS: ECON, EAID, EFIN, SP
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006